From: Rose, Joanna <JRose@Related.com>
Sent time: 06/25/2015 03:15:49 PM
To: Wright, Kay (ESD); Bruno, Jonah (ESD)
Subject: WSJ
Attachments: EB-5 Final Report 6.23.pdf

Eliot Brown is writing a piece on how a large portion of the EB5 program is being utilized by NYC/Urban developers. He is calling into question the intent of the use of the $500k investment threshold which is for either 1) rural projects or 2) projects that meet a minimum threshold of unemployment to qualify as Targeted Employment Areas. (there are no projects at the $1m investment level, the only criteria there is job creation)

TEAs must meet a minimum of 9.3 % unemployment and he is alleging that the census-track maps are being “gerrymandered” to fit the criteria and aren’t meeting this intent of the program. In NYS, the maps are created by DOL and approved by/certified ESDC.

We have repeatedly made the following points, but coming from a developer, we are just not the right messenger.

It may be true that state designated TEA maps are rarely geometric, you cannot equate that with bending the rules. Each state has different economic needs and different population commuting patterns.

Where an EB-5 project site itself is not a high unemployment census tract, adjoining census tracts with high unemployment are brought within a contiguous geographic area to designate a TEA. Importantly, this approach is consistent with how (1) the BLS measures unemployment and (2) economists measure job creation impacts of stimulation.

The way the law is written, states review and approve TEA designations — an approach that puts job-creation decisions in the hands of local economic development officials, those who know the economic needs, demographics and commuting trends of each community best. One-size-fits-all standards for determining TEAs without regard to these on the ground inputs would not serve the program or its mission well.

To be clear, the Department of Labor and the Department of Homeland Security have provided guidelines on how the TEA analysis is conducted by the states. DHS always has the authority to question and reject state TEA approvals.

This program is a great tool to fill a critical financing need, create jobs, and at no cost to the taxpayer.

He doesn’t have a firm run date, but is filing tomorrow.

Attached is a report that came out today on the number of jobs that have been created.

U.S. Policy Metrics
www.uspolicymetrics.com
202-652-0037

Hamilton Place Strategies
www.hamiltonplacestrategies.com
202-822-1205

June 2015

Harnessing Private Capital For Job Creation: An Analysis Of The EB-5 Program

Steve McMillin, USPM
Michael Solon, USPM
Matt McDonald, HPS

This report was commissioned by the EB-5 Investment Coalition. The findings represent the views of the authors alone.

Findings:

- **From 2005-2013, the EB-5 program generated a minimum of $5.2 billion in private investment. In 2013 alone, the program brought in a minimum of $1.6 billion in private investment.**
- **Assuming all minimum requirements are met for each investment, investments through the EB-5 program in 2013 would create 31,000 jobs. Other analyses relying on Input-Output (I-O) models find even more jobs will be created with this level of investment.**
- **Analyses using I-O models of snapshots of EB-5 investments show that investments throughout the U.S. fund projects in a diverse range of industries and create tens of thousands of jobs.**

The EB-5 Immigrant Investor program was created in the Immigration Act of 1990 to provide an allocation of visas for immigrants investing in a job-creating commercial enterprise. The program was modified in 1992 through the creation of the Regional Center Program, which allows immigrant investors to pool capital in larger projects and to meet the job creation requirements of the program through W-2 employees, independent contractors, or other indirect means.

The Regional Center program was created as a pilot program and has been extended six times, most recently in 2012, when it was reauthorized by unanimous consent in the U.S. Senate and a margin of 412 to 3 in the U.S. House of Representatives. Regional Center Program authority will expire on September 30, 2015 unless Congress acts to extend it once again. Regional centers have played a central role in the program's implementation, facilitating a majority of the total visas issued over the history of the EB-5 program.

Prior to 2009, the EB-5 program used only a small fraction of the 10,000 visas allocated annually to the program. In recent years, however, rising demand for foreign investment on the part of U.S. businesses paired with growing demand for EB-5 visas has increased program utilization dramatically. Chinese applicants have managed to reach their per-country limit and petitions from all other countries continue to rise.

This increased utilization has been accompanied by program changes and management issues that have drawn the attention of the Department of Homeland Security Inspector General, the Government Accountability Office, and the relevant oversight committees of Congress. These reviews will no doubt provide Congress

with a number of options for improving efficiency, transparency, and accountability in the context of reauthorizing the Regional Center authority.

This paper seeks to address the threshold question before Congress, the continuation of Regional Center authority and, by extension, the continuation of a robust EB-5 program, based on the program's record, design, and job-creating potential.

The rest of this paper will:

- Provide background on the EB-5 program
- Detail the economic impact of the program
- Demonstrate that the EB-5 program is a successful investment policy and, secondarily, an immigration policy
- Highlight the efficiency of the program's private capital investment
- Discuss potential reforms to increase the program's economic impact

Program Background.

The EB-5 Immigrant Investor program was initially created by Congress as part of the Immigration Act of 1990. Along with four alternative employment-based (EB) visas, the EB-5 program was introduced as a means for stimulating economic activity and promoting job growth through the infusion of private capital, while also offering 10,000 eligible people each fiscal year an opportunity to become lawful permanent residents.

The current structure of the program allows immigrants who invest capital in job-creating businesses and projects in the United States to receive conditional permanent resident status for two years through the United States Citizenship and Immigration Services' (USCIS) "immigrant petition by alien entrepreneur" (I-526). If the investor has satisfied the requirements of the EB-5 Program, the conditions of residency are removed through a "removal of conditions" (I-829) allowing them and their dependents to become lawful permanent residents of the United States without further conditions.

...the EB-5 program was introduced as a means for stimulating economic activity and promoting job growth through the infusion of private capital...

Investment Requirements - 10 U.S. Worker Jobs Through Assumed Risk Greater than $500K.

Immigrants participating in the EB-5 program are required to make a minimum capital investment of $1,000,000 dollars in new U.S. enterprises.[1] If a participant chooses to invest in an existing business—a commercial enterprise established before November 29, 1990—the capital investment must increase the business's net worth or the number of qualifying U.S. workers employed in the business by 40 percent.[2]

Alternatively, the EB-5 program allows immigrants to invest $500,000 in a "targeted employment area" (TEA), which includes a rural area or a high unemployment area. Rural designation adheres to the Office of Management and Budget definition of regions outside of any city or town with a population of 20,000 or more. Furthermore, the program classifies TEAs as areas with unemployment of at least 150 percent of the national average rate.[3]

Regardless of whether an immigrant invests $1,000,000 or $500,000, each participant must prove that their qualifying investment is personally owned, legally obtained, and understood to carry both a risk of loss or chance for gain.

In addition to the preceding capital qualifications, the EB-5 program adheres to its purpose of stimulating economic activity and promoting job growth by requiring that investments create a minimum of 10 full-time jobs for U.S. workers. Immigrants may also satisfy this requirement if their qualifying investment saves a minimum of 10 jobs in a "troubled business".[4] A troubled business is classified as an enterprise that has operated for at least two years and incurred a net loss of 20 percent (deter-

mined on the basis of general accounting principles) during one of the two years preceding the investment.

Regional Centers Have Helped Propel The EB-5 Program Forward.

As an alternative to the original program, immigrants have the option of initiating a qualifying investment through the EB-5 Regional Center Program. A regional center essentially pools EB-5 investments with other domestic sources to finance commercial projects. Therefore, rather than seeking out an individual opportunity, investors can go to regional centers that can direct funds to projects.

Investors utilizing regional centers are subjected to the same obligations concerning both level and area of investment, but operate under different job creation requirements. Rather than creating or preserving 10 direct jobs, USCIS allows regional center investors to create 10 indirect jobs as a means for incentivizing increased investment. USCIS currently defines indirect jobs as those that are "created collaterally or as a result of capital invested in a commercial enterprise affiliated with a regional center by an EB-5 investor."[5] Additionally, only economic models approved by USCIS can be used to estimate indirect job gains.

In order to create a new regional center, interested applicants have to complete the USCIS "application for regional center" (I-924) and undergo a thorough vetting process. Regional centers qualify based on a variety of factors such as their proposed geographic scope, their ability to improve regional productivity and economic growth, and a comprehensive economic plan that demonstrates how the center will create both indirect and direct jobs. Upon approval, these centers can then begin accepting immigrant investment and pooling the capital to facilitate large development projects that create more jobs.

Regional centers have been critical in financing a wide array of local ventures for a diversity of communities across the country.

While regional centers have been in place since 1993, the program only recently experienced a rapid growth spurt beginning in 2008. According to an analysis conducted by the Brookings Institution, only 16 regional centers were created from the program's inception up until 2007.[6] As of the end of 2013, the number of regional centers was nearly 25 times larger with over 400 centers in 44 states, the District of Columbia, and U.S. territories. Today, there are now over 600 centers (Fig. 1).

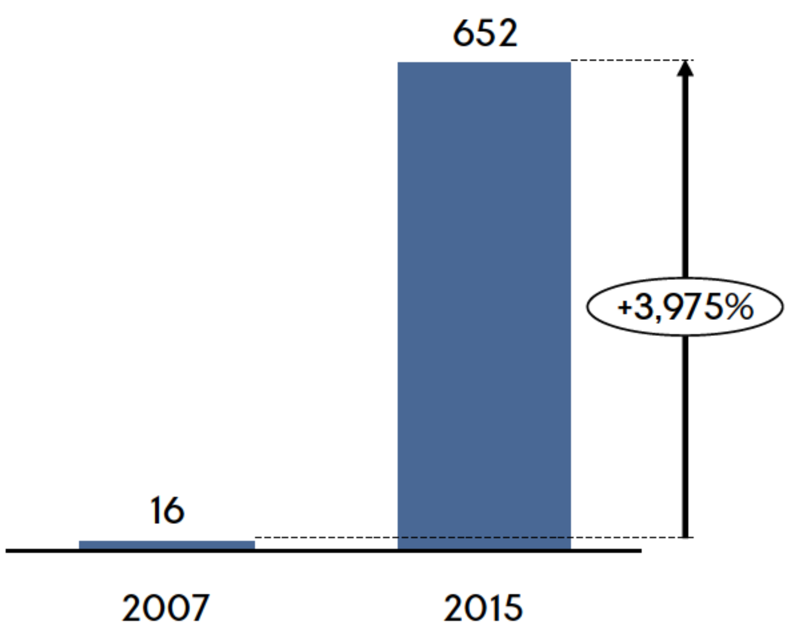
The 2008 spike and subsequent growth in the number of regional centers can partially be attributed to the financial crisis. As traditional sources of financing became scarce during the start of the 2008 recession, alternative means of accruing capital such as the EB-5 program and creating regional centers were viewed as practical means for funding development projects.

Examples of projects financed in whole or in part through this method include the Hunters Point Naval Shipyard in San Francisco; the Panorama Tower in Miami; and Marriott hotels in Seattle and Los Angeles.

In addition to these large-scale commercial projects, regional centers have been critical in financing a wide array of local ventures for a diversity of communities across the country. EB-5 regional center investments helped build hundreds of affordable housing units in Miami. They allowed manufacturer Proterra to relocate and expand operations for their zero-emission battery powered busses to South Carolina. And in Chicago, Illinois, regional center investment is aiding the construction of treatment centers for patients with Alzheimer's or long-term mental illness.

EB-5 money is often described as "patient capital." During the crisis and the weak recovery, EB-5 financing was available and offered at lower rates, allowing

Fig. 1: Number Of Authorized EB-5 Regional Centers



Source: United States Citizenship And Immigration Services (May 2015)

capital-intensive projects such as hotels that directly and indirectly employ thousands of people to get off the ground. In the first three years after the crisis, Hilton, Hyatt, and Starwood Hotels all turned to EB-5 financing, according to a New York Times report.[7]

"It's a method of financing that's current, available and very credible," said Craig Mance, Hilton's senior vice president for development for North America. "It's helping deals move forward."

Overall, the regional center program has become the vastly preferred means of investment for immigrants participating in the EB-5 program. Ninety-eight percent of EB-5 visas in 2013 were allocated based off investments through regional centers.[8]

Targeting High Unemployment Areas.

Beyond providing "patient capital," the EB-5 program offers investors the ability to commit $500,000 in investments as opposed to $1,000,000 by targeting a high unemployment area. Despite an economic recovery that is technically beyond its sixth year, it is evident that groups and areas of the nation have been left behind. Unemployment at the county level shows immense variation in 2015, swinging nearly 25 percentage points between 1.6 and 26.6 percent among the most employed and most unemployed counties in the country (Fig 2).[9]

In the first three years after the crisis, Hilton, Hyatt, and Starwood Hotels all turned to EB-5 financing.

The national unemployment rate has nearly reached pre-recession levels. Yet, this ignores the fact that there are many "missing" workers who have stopped looking for work due to the weakness of the economy. The labor force participation rate is currently 62.8 percent, down roughly three percentage points since the crisis. Some of this drop is undoubtedly due to the aging of our population, yet most estimates find that a good portion is also explained by the weak recovery.[10]

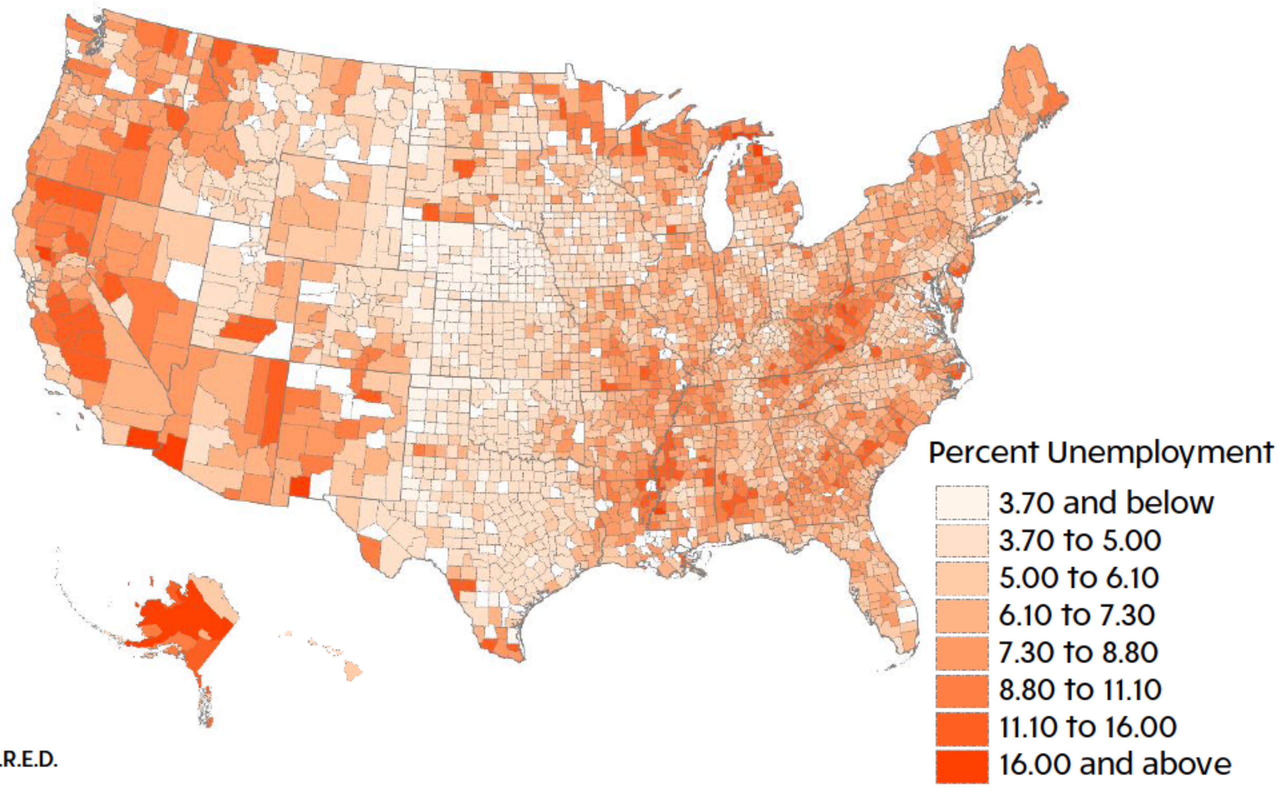
Additionally, approximately 2.3 million workers are employed part-time for solely economic reasons, roughly one million more than pre-crisis figures. Lastly, there are twice as many counties in 2015 with greater than or equal to 6 percent unemployment than in 2007. This also holds true for counties with greater than or equal to 8 percent unemployment.[11]

Overall, the EB-5 program incentivizes investment in these regions that include pockets of high unemployment through TEAs.

Program Participation Is On The Rise.

Demand for the EB-5 visa has grown exponentially over the past few years, leading to an increase in the number of immigrants investing in and entering the

Fig. 2: Unemployment By County March 2015



Source: F.R.E.D.

United States through the program. While 749 individuals gained conditional residency through the EB-5 program in 2005, that number quickly rose to 1,360 in 2008 and has continued to expand to 8,543 visas granted in 2013 (Fig. 3).

In fact, over the last two years, the EB-5 visa program has nearly reached its cap of 10,000 visas. As total demand has steadily increased, per-country limits have been implemented to ensure that the program remains within its quota. On May 1, 2015, Chinese applicants reached their EB-5 quota, leading the State Department and USCIS to implement retrogression on future investors from the country. Quota retrogression will significantly delay I-526 application processing and increase the time it takes for mainland Chinese investors to immigrate to the United States and manage their investments.

These delays will do more than simply inconvenience these prospective immigrants. They also threaten the ability of the program to attract viable investments. Not only will Chinese-born investors be deterred from participating due to these suspensions, as the largest category of investors in the program, a limit on their applications will make it more difficult for regional centers to finance larger projects by pooling the funds of investors from multiple countries.

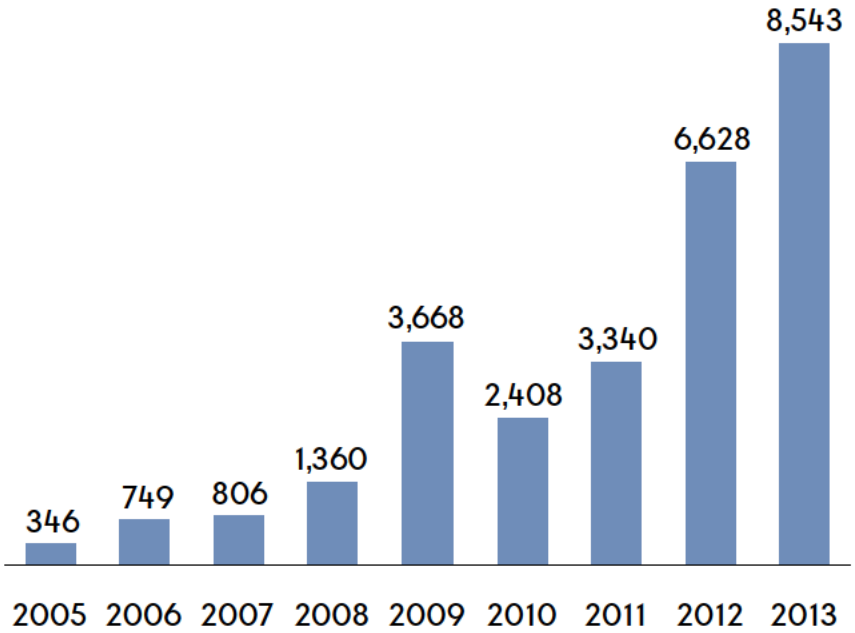
...over the last two years, the EB-5 visa program has nearly reached its cap of 10,000 visas.

It's worth noting that because investors' family members, including spouses and children, are included in the cap, 10,000 investors will never enter the U.S. through the EB-5 program. From 2005-2013, 24 percent of all conditional residency visas were given to the investors' spouses and 40 percent were given to their children. In total, only 35 percent of the visas were allocated to the investors themselves (Fig. 4).

The Bottom Line: The EB-5 Program Creates Tens Of Thousands Of Jobs.

The early years of the EB-5 program yielded minimal investment and job creation due to low participation. But since a surge in popularity

Fig. 3: Total EB-5 Visas Issued 2005-2013



Source: D.H.S. Immigration Yearbook 2005-2013

in 2008, the EB-5 program has shown consistent – and growing – annual yields of domestic investment and U.S. job creation.

The majority of the growth in the EB-5 program has been through the regional center program, which simplifies the investment process for applicants and contains job creation requirements that can be easier to fulfill. The vast majority of program participants who invest through regional centers do so in targeted employment areas (TEAs), thereby investing at the lower cost of $500,000 rather than $1,000,000.

In 2005, before the program gained in popularity, investment in TEAs made up 58 percent of the total visas allocated towards employment creation. But in 2013, investment in TEAs made up 98 percent of the total – a testament to the growth of regional centers and the preference of investors towards TEA investment and its lower cost.[12]

Assuming applicants only invested at the minimum required rate ($1,000,000 for non-TEA and $500,000 for TEA), the program triggered a minimum of $1.5 billion invested in TEAs and $88 million in non-TEAs in 2013 (Fig. 5). With this level of investment, the EB-5 program can claim responsibility for creating potentially 31,000 U.S. jobs in 2013, based on the requirement that each investor has fulfilled the minimum of 10 net new jobs created.[13]

To put that in perspective, in the past 12-months, 11 states, including Alabama, Arkansas, Connecticut, Delaware, Idaho, Iowa, Kansas, Nebraska, New Mexico, North Dakota, and South Dakota, saw less job growth.[14]

Fig. 4: Total EB-5 Visa Breakdown 2005-2013

Source: D.H.S. Immigration Yearbook 2005-2013

Given a typical investment of $500,000 and a minimum requirement of 10 jobs, the EB-5 program uses roughly $50,000 in private capital per job. Meanwhile, estimates for the American Recovery and Reinvestment Act, commonly known as the stimulus, ranged from more than $100,000 per job to $400,000. Under this scenario, the EB-5 visa program is 500 percent more efficient at creating a job (Fig. 6).[15]

Moreover, the stimulus was public money, provided by the taxpayer or added to the public debt. The EB-5 program is all private capital and the program itself is funded through user fees, not taxes. Therefore, because it generates economic activity at no programmatic cost, the EB-5 program can only reduce the deficit, while the stimulus added to the deficit and in turn will hinder growth in the long run.[16]

Snapshot Analyses Of Economic Impact Across The Country.

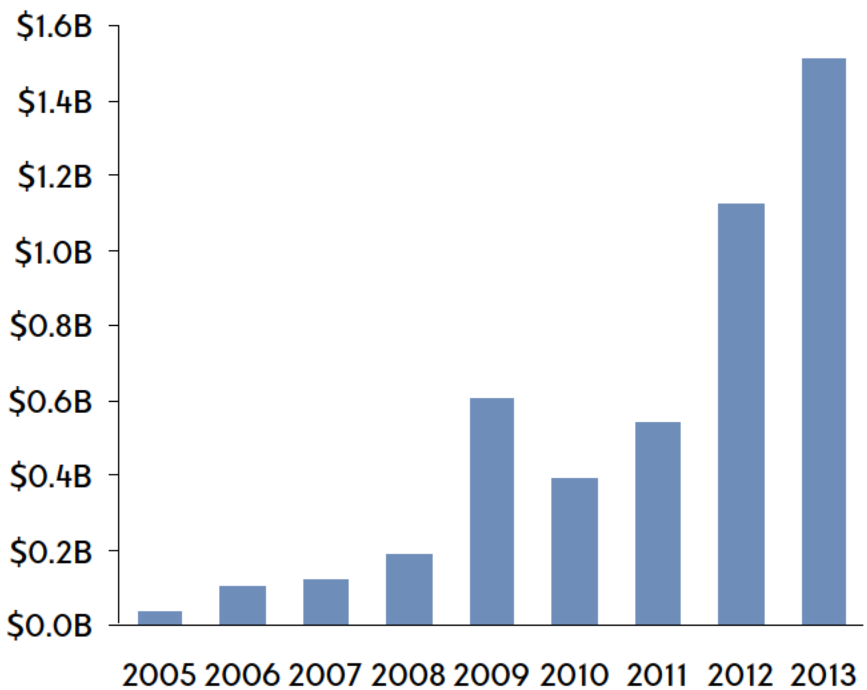
The analysis above relies on conservative assumptions. While it ignores the effects of pooling EB-5 investments through regional centers, it only assumes 10 jobs are created when in fact many EB-5 investments can create far more. Other analyses, similar to those used by the Federal Highway Administration to estimate the number of jobs created by federal highway investments, use Input-Output models to estimate jobs of the EB-5 program and find larger job gains.

The EB-5 program is all private capital and the program itself is funded through user fees, not taxes.

A recent peer-reviewed analysis by the Alward Institute for Collaborative Science looked at the impact of total EB-5 spending including associated household spending and additional immigration expenses. David Kay—a regional economist who specializes in development strategy, policy analysis, and program evaluation—found that over the course of FY 2013 the EB-5 program supported more than 41,000 jobs.[17] The full impact of the EB-5 visa program becomes apparent when considering the impact on local job creation.

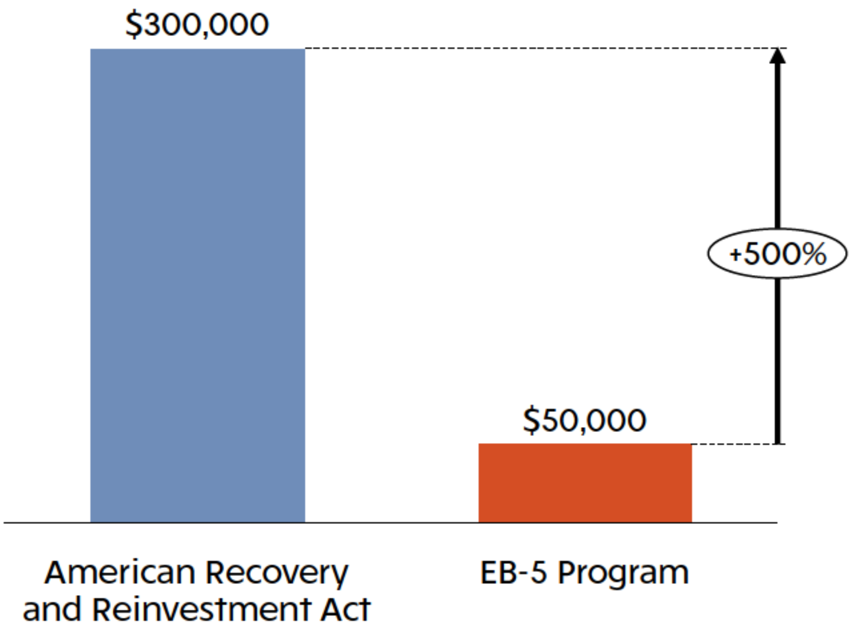
MB Consulting, LLC conducted an analysis on EB-5 economic impact that examined a selection of projects in numerous industries completed by a variety of regional centers. The study found that 83 regional center projects from across the United States and the Mariana Islands were able to produce $15 billion in investment and create 103,685 jobs from 2011 to 2014. While high levels of investment and job creation were concentrated in states with large populations, states such as North Carolina

Fig. 5: Minimum Total Annual EB-5 Investment 2005-2013



Source: D.H.S. Immigration Yearbook 2005-2013
**Includes TEA & Non-TEA Investments

Fig. 6: EB-5 And ARRA Cost-Per-Job Comparison



Source: James Feyrer And Bruce Sacerdote, National Bureau of Economic Research

were still able to generate $160.4 million in investment and 2,741 jobs with projects focused on cold storage, continuous care, and hotel construction. The EB-5 program impacts states across the country (see Table 2).

An additional analysis conducted by Wright Johnson, LLC looked at a variety of EB-5 regional center projects across the United States from 2011 to 2015. The analysis found that the selected regional centers from Washington to Puerto Rico were able to generate $2.5 billion in investment and create an estimated 67,364 jobs.

As data from Wright Johnson, LLC (see Table 1) show, mixed use projects and projects focused on apartments, hotels, manufacturing, and resorts were the most successful in terms of job creation, generating a five-year total of 49,980 jobs. Other industries such as assisted living facilities exhibited steady growth over the same time period, generating a total of $89.5 million in EB-5 investment and creating an estimated 2,850 jobs. The Wright Johnson, LLC data show that the EB-5 program helps businesses across a variety of sectors, from real estate, healthcare, manufacturing, and tourism.

83 regional center projects from across the United States and the Mariana Islands were able to produce $15 billion in investment and create 103,685 jobs.

Data from the above analyses does not simply illustrate the EB-5 program's impact across the entire United States; it provides a nuanced picture of the program's extensive effects in metropolitan areas as well. MB Consulting's analysis identified that EB-5 investments in major urban areas such as New York City were able to create and support over 57,000 jobs in a variety of industries. In Los Angeles, Wright Johnson estimated that the program generated nearly 10,300 jobs for constructing apartments, hotels, and mixed use buildings.

Urban areas throughout the United States continue to deal with challenges such as shortages of quality housing or fluctuating levels of poverty and must also find ways to capitalize on opportunities for growth. The EB-5 program creates investment that can, in many ways, work towards solving the problems that urban areas currently face. In addition to providing capital for development, EB-5 investment is also responsible for providing a wide array of jobs in these communities. Each commercial development enables job creation directly centered on construction or maintaining the valuable supply chains that enable development. Furthermore, the benefits of such employment permeate

outside of the immediate scope of the EB-5 program by generating an additional set of jobs in response to the overall rising levels of income catalyzed by direct job creation.

Direct, Indirect, And Induced Jobs.

One critique of the EB-5 program is that it allows for the inclusion of indirect jobs created towards the minimum 10 jobs created requirement. While direct job counts may have the benefit of greater certainty, such a narrow view of economic impact will inevitably undercount the impact of investments. Just as indirect and induced jobs metrics are used for multifaceted projects such as the Keystone XL pipeline, they apply with equal force in the context of the EB-5 program.[18]

The impact of an investment that builds a hotel does not end at the hotel's doors. Economists break down the impact into direct, indirect, and induced job creation. In the case of a hypothetical hotel construction project, the hotel directly employs construction workers and then hotel managers and staff. Indirectly, the construction of the hotel uses concrete, bricks, and wood, leading to more production and mining of those materials and thus more jobs. Meanwhile, food, cleaning, and electrical businesses now have a new customer, creating more demand for labor. This process represents indirect job creation.

Lastly, these new employees now have more income that they can spend at restaurants, housing, furniture, cars, and more, referred to as induced job creation. The sum impact is the increase in final demand, and while it may seem complex to measure, economists have been developing and fine-tuning models over the past 70 plus years to tackle these types of questions.

Wassily W. Leontief developed the first I-O model at the national level in 1941, followed by Walter Isard who created regional models in the 1950's.[19] Today, I-O models such as IMPLAN and RIMS II are used by a wide-variety of economic actors such as city planners, investors, and elected officials. Economic analyses continuously rely on these tools as the several sectors of developed economies become highly interdependent. Simply put, these are widely accepted models that are widely used by federal statistical agencies, including the Department of Commerce's Bureau of Economic Analysis and the Department of Labor's Bureau of Labor Statistics.

While direct job counts may have the benefit of greater certainty, such a narrow view of economic impact will inevitably undercount the impact of investments.

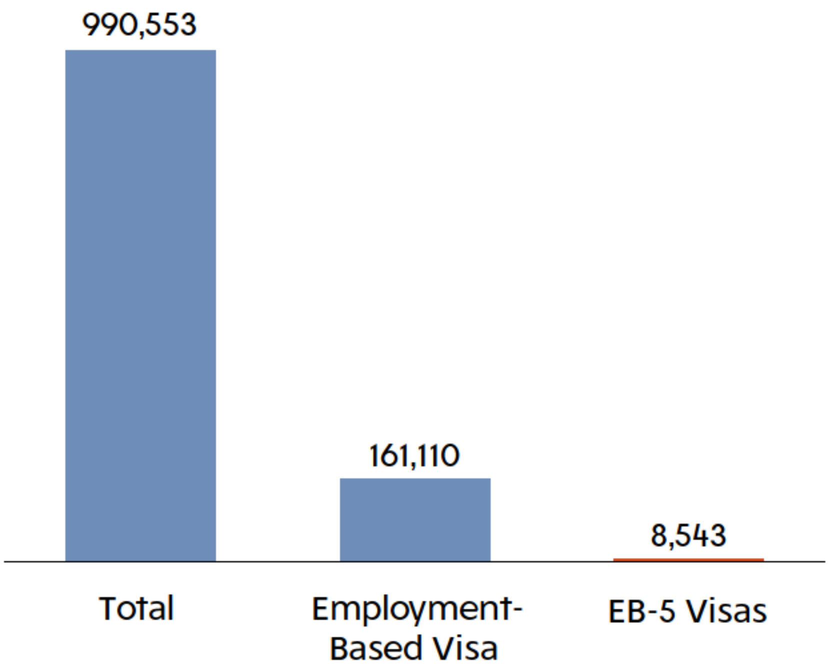
In fact, the Department of Transportation and Federal Highway Administration calculates the jobs impact of highway spending using a similar model that takes into accout direct, indirect, and induced job creation.[20]

There are benefits to policymakers in understanding both direct and indirect job creation, and weighing each appropriately in making public policy. But by no means should one ignore the value of indirect job creation, nor would it be prudent to ignore the decades economists have spent developing and refining the models to estimate it.

This argument parallels the debate over dynamic scoring for budgetary policy. Static analyses fail to account for the full benefits of policies such as corporate tax reform and deny policymakers relevant information. Discounting the dynamic effects of the EB-5 program by restricting job counts to just direct jobs will have a similar effect on investments.

Additionally, from a practical standpoint with respect to the EB-5 program, eliminating the consideration of indirect and induced jobs would severely undermine the effectiveness of the program. For one, it would reduce participation as many projects would no longer qualify for these investments. Second, it would favor investment in labor-intensive sectors over other

Fig. 7: Visa Allocation By Category Of Admission 2013



Source: D.H.S. Office Of Immigrant Statistics

higher-productivity sectors. Government policy should not favor one sector over another. Therefore, including indirect jobs in the count is beneficial in that it levels the playing field for investment from EB-5 participants.

The EB-5 Program As Private investment, Not Immigration Policy.

Any analysis of the EB-5 program must be considered in the context of the public policy landscape in 2015. The national debate over tax reform, trade expansion, and infrastructure policy have one thing in common: a desire to boost private investment to help fuel long-term growth.

Encouraging more private investment is central to policy goals across the legislative and political spectrum, because it catalyzes growth at no cost to the taxpayer.

The following framework is the proper way to assess the EB-5 Immigrant Investor program: a visa class that requires either \$1,000,000 or \$500,000 in investment and at least 10 U.S. worker jobs created to obtain lawful permanent residency, often referred to as a green card.

Every year approximately one million new legal immigrants (Lawful Permanent Residents) are admitted to the United States. The EB-5 visa accounts for less than one percent of that total (Fig. 7).[21] The vast majority of immigrant programs are designed to connect families and protect refugees and asylees, with only 15 percent of all visas related to employment. Even within the category of employment-based visas, the EB-5 program makes up only 5.3 percent and is the only program specifically mandated to create U.S. jobs. From the perspective of U.S. immigration policy, the EB-5 program admits a relatively small number of immigrants, all of whom have sufficient financial means and are thus unlikely to enroll in various low-income public benefit programs.

The real value of the program, however, is not the number of people who come to the United States, but how their investments leverage job creation.

The real value of the program, however, is not the number of people that come to the United States, but how their investments leverage job creation. EB-5 visas generate a minimum investment of \$1,000,000, or \$500,000 in a targeted employment area, that creates at least 10 jobs. As detailed above, in 2013, these investments totaled \$1.6 billion. However, this level of investment understates its importance.

EB-5 investment is “patient capital” which persists even during times of stress and

demands lower rates of return than other alternatives. It's therefore very promising for durability and long lead capital-intensive investment that tend to have a larger employment footprint than other investment alternatives. Furthermore, while investment generated by the EB-5 program represents a fraction of total U.S. foreign direct investment, it remains a source of capital that can have a significant role on the regional and local level.

While it is typically considered in the context of immigration policy, the EB-5 program is far too small and has a different set of goals relative to other programs to be solely considered immigration policy. By any conceivable metric, the EB-5 program is a rounding error as it relates to overall immigration levels but is disproportionately large relative to its effect on private domestic investment and net new job creation.

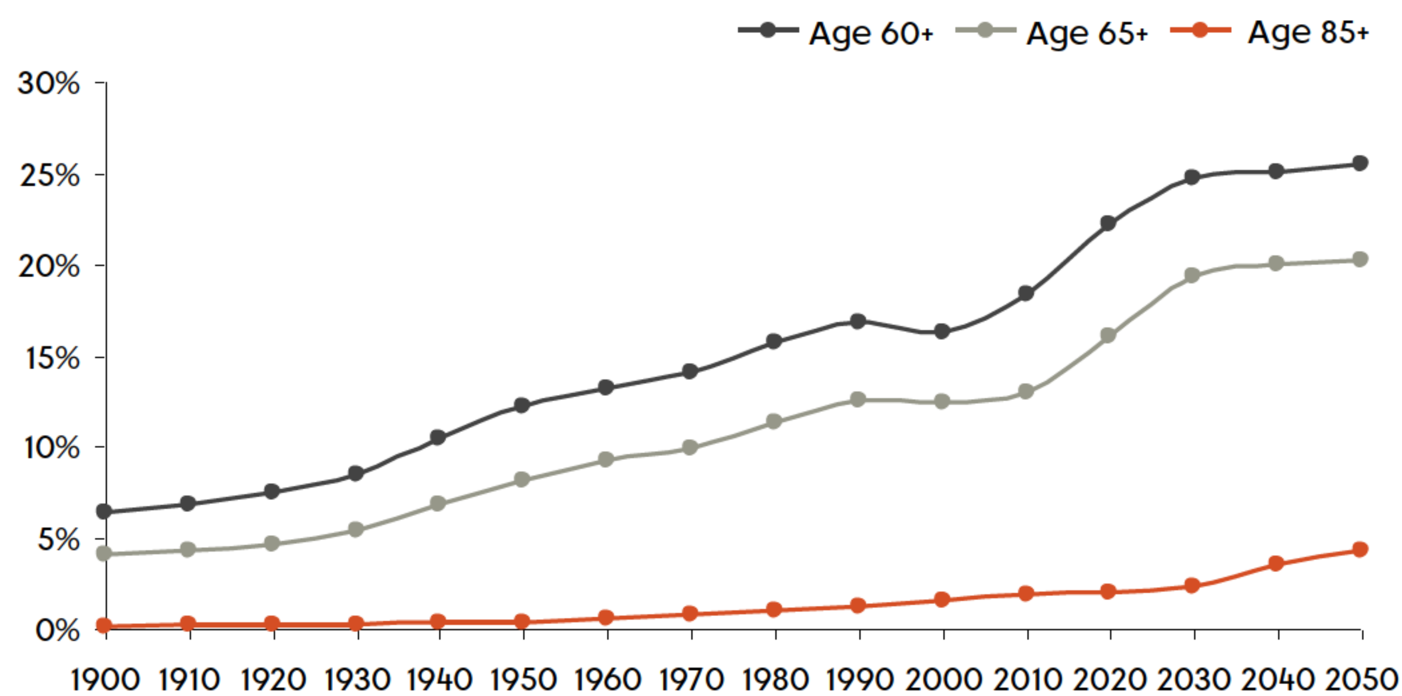
Looking more long-term, the demographic changes the United States faces will challenge efforts to increase savings and capital formation.

In the two years after our most recent economic crisis, investment spending fell 34 percent.[22] Since then, gross domestic private investment has increased back to pre-crisis highs, but as a percentage of GDP, it remains below the bottom of 2000-01 recession levels at 16.7 percent.[23]

Looking more long-term, the demographic changes the United States faces will challenge efforts to increase savings and capital formation (Fig. 8). As the U.S. population ages, more of the population will shift from accumulating savings to consuming them. A 2005 McKinsey study summarizes this challenge best:

"In the past, aging of the baby boomers supported wealth accumulation as they moved through their peak income and saving years, but was overwhelmed by strong behavioral trends to save less. In the next 20 years, however, the baby boomers will enter retirement and will reinforce

Fig. 8: Aging Population As A Percentage Of The United States Population 1900-2050



Source: U.S. Administration On Aging

these behavioral trends to create a significant financial 'headwind:' baby boomers will save less, younger generations will continue to save less, and birth rates will slow. The resulting decline in the growth rate of financial wealth accumulation means there will be less household savings to support a fast-growing retiree population and it will become more difficult to support domestic investment and sustain strong economic growth."[24]

Moody's echoed these concerns last March arguing that aging will reduce annual economic growth by 0.4 percentage points and 0.9 percentage points from 2014-2019 and 2020-2025, respectively.[25]

The United States needs policies that will increase investment to sustain economic growth through short-term crises and in long-term challenges. At no cost to the taxpayer,[26] the EB-5 program is an efficient means of attracting private investment proven to generate U.S. job growth.

Reform: Opportunities To Enhance Economic Impact.

A recent proposal by leading Senators to reauthorize the EB-5 Regional Center program for five years is a welcome development. However, some proposed program changes could result in a reduced impact of the program on the U.S. economy. By creating more restrictive job requirements and rules that may favor rural investment over urban investment, proposed reforms will only inhibit the ability of the program to create jobs. As stated above, the job requirement's methodology is already economically sound. Further, urban investments like the Barclay's center in New York are valuable to local economies. There is no economic reason to favor rural over urban investment. As a general rule, the U.S. government should ensure capital flows as efficiently as possible, going to where it's economically needed.

Although some of the reforms proposed in the Senate threaten to inhibit the effectiveness of the EB-5 program, there are options that could improve the ability of the EB-5 program to boost the U.S. economy. Two reforms that could enhance the program's investment and jobs impact are the treatment of dependents and cyclical adjustments.

The EB-5 program has consistently approached its cap of 10,000 visas since participation experienced a rapid growth spurt in 2008. This increase in demand is largely due to the fact that a substantial share of these visas is allocated to the spouses and children of investors. Because EB-5 is more properly thought of as an investment program and not an immigration program, a reform that excludes spouses and dependents from the cap better aligns the cap with the goals of the program.[27] This would increase the cap, but given the existing low number of visas within the program, the EB-5 visa would still be small relative to other visa categories in terms of number of immigrants. However, it would leverage investment and job growth significantly.

...reform that excludes spouses and dependents from the cap better aligns the visa quota with the goals of the program.

Second, cyclical adjustments should be considered under potential reforms. As stated above, investment fell 34 percent during the most recent crisis. Adjusting the EB-5 cap for cyclicality would improve the effectiveness of the program. Specifically, two approaches should be considered during recession years: reducing the minimum investment threshold and/or raising the cap.

In conclusion, government policy proposals from tax reform to trade to infrastructure all seek to boost U.S. investment, because it is critical to capital-formation and long-run economic growth. Going forward, an aging population will likely reduce private investment in the U.S. Therefore, we need smart government policies to sustain growth. Extension and im-

provement of the EB-5 program will further enhance the program's benefit to the U.S. economy.

About The Authors

Steve McMillin

Steve McMillin is a Partner of US Policy Metrics, based in Washington, D.C. Steve has over twenty years of policy experience including careers at both the White House and on Capitol Hill. Steve served as Deputy Director of the White House Office of Management and Budget (OMB) from July 2006 – January 2009.

Michael Solon

Mike Solon is a Partner of US Policy Metrics, based in Washington, D.C. Before Jan 2012, Mike was the principal of a Washington consulting firm, Capitol Legistics, which he founded in 2007. Mike is a 25-year veteran of Capitol Hill, with extensive experience in various Leadership offices. In addition to his 14 years with Sen. Phil Gramm, Mike worked for numerous House and Senate members as a Staff Director, Economic Policy Advisor, and a Policy Director.

Matt McDonald

Matt McDonald is a Partner at Hamilton Place Strategies, based in Washington, D.C. Most recently, Matt was a consultant for McKinsey & Company, served as an Associate Communications Director under President Bush, and served in senior roles on the past three presidential campaigns.

Endnotes:

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2. ibid

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23. F.R.E.D. Graph: Gross Private Domestic Investment v GDP

24. Diana Farrell et al., "U.S.: From Boom To Bust?" McKinsey & Company, Jan. 2005

25. Elena Duggar and Anne B Van Praagh, "Aging Will Reduce Economic Growth Worldwide

In The Next Two Decades," Moody's Investors Service 06 Aug. 2014
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Appendix:

Table 1: EB-5 Job Creation Estimates By Industry

Industry	Sum of Estimated Jobs Created
Apartments	4492
Assisted Living Facility	2849
Condos	2089
Digital Media Company	25
Electric Powered Vehicles	895
Finance	728
Hospital	1292
Hotel	20950
Luxury Home/Condo	691
Manufacturing	2982
Mineral Extraction	910
Mixed Use	18023
Office Building	2004
Oil & Gas Drilling Plant	2576
Refurbishing Television Panels	40
Residential	1189
Resort	3535
Restaurant	1020
Schools	1187
Grand Total	**67475**

Source: Wright Johnson, LLC

Table 2: EB-5 Job Creation Estimates By State

State	Sum of Estimated Jobs Created
Arizona	47
California	4381
Colorado	412
Connecticut	1723
District of Columbia	32
Florida	8704
Hawaii	510
Idaho	3401
Illinois	1712
Louisiana	1100
Mississippi	24
New Hampshire	402
New Jersey	313
New York	57585
No. Mariana Islands	4092
North Carolina	2741
Ohio	682
Oregon	330
Pennsylvania	309
South Carolina	1537
Tennessee	236
Texas	4830
Vermont	3481
Washington	4763
Wisconsin	338
Grand Total	**103685**

Source: MB Consulting Group, LLC

From:	Wright, Kay (ESD)
Sent time:	05/19/2015 10:37:51 AM
To:	Erin Cole [redacted]
Subject:	RE: Your input

Thank you so much for contributing your thoughts in the midst of such a busy time.

[redacted].

Talk to you soon.
Kay

From: Erin Cole [redacted]
Sent: Tuesday, May 19, 2015 10:08 AM
To: Wright, Kay (ESD)
Subject: Re: Your input

Kay,

We are holding our annual World Trade Celebration in Niagara Falls tomorrow, it is our largest event for the year with about 300 attendees, so things are hectic. However, here is some feedback on the questions below:

What should EDCs and IDAs do to encourage foreign investment? Identify and meet with foreign-owned companies in their territory. Understand why they chose to purchase a U.S. firm there. Would they be willing to act as "economic ambassadors" with other companies/trade associations in their home country in order to educate them on U.S. opportunities? One thing to keep in mind: most foreign firms purchase a U.S. firm because of a prior relationship, it could be an import/export relationship, it could be because of a parent company acquisition, it could be that one or the other was a direct competitor, and/or one or the other was directly complementary to the other business. This makes facilitating such sales more complicated, because the foreign firm was very specific in its interests.

Should EDCs plan their own trade missions? If the goal is FDI, then it would make more sense for EDCs to plan what are called "reverse trade missions", which is when the EDC identifies a target country and industry cluster (and/or investors) and recruits them to come to the specific U.S. location. Local resources can come in handy, such as local college foreign alumni groups (if any), sister city relationships, non-profit groups that are authorized U.S. Department of State exchange program administrators, U.S. Dept. of Commerce, ESD, WTCBN, etc. If exports are the goal, then I think that localized trade missions overseas could generally work, but I wonder if the EDCs have staff who can organize such a major undertaking. Do they know foreign protocol? Do they speak foreign languages? Who on the ground in the foreign country will be their point of contact? How will they target appropriate foreign countries/industry clusters?

What kinds of industries and countries are more likely to seek out opportunities in New York State? There is no one answer to this. Knowledge is power, so outreach to foreign countries regarding the benefits of being in NYS, such as the Start-Up NY program, and/or what our industry and innovation strengths are is critical. It is also possible to draw a link between the countries from which international students are coming here to their home countries/businesses/governments. For example, China, India and S. Korea typically lead the pack for international students in NYS. It would be possible to create a strategy to reach the top 10 source countries and then target the international students while they are here in NYS. Again, they could become "economic ambassadors" when they head home.

What are some of the mistakes EDCs make when dealing with foreign companies? I don't know this for sure, but imagine that most of them do not have staff who are internationally-savvy, speak foreign languages, are well-versed in conducting market research regarding foreign countries, etc.

What are the types of incentives foreign companies seek out when determining whether or not to invest in New York State? This also varies. If the investment is because of an acquisition, then the answer is the same as the first

question above. Most foreign firms are not just looking to randomly invest somewhere; they are typically acquiring a firm in their industry. If they are starting from scratch, then the whole range of possible benefits could be used to attract them, including access to fresh water, quality of live/cost of living, tax incentives, immigration (EB-5), etc.

[redacted]

Have a great day,

Erin

On Mon, May 18, 2015 at 1:30 PM, Wright, Kay (ESD) <Kay.Wright@esd.ny.gov> wrote:
A staff member is presenting at the NYSEDC in Cooperstown this week and below are the types of questions they'll be asked. I'm hoping you can take a look and offer input.
Thanks, Kay
Types of questions may include:

- What should EDCs and IDAs do to encourage foreign investment?
- Should EDCs plan their own trade missions?
- What kinds of industries and countries are more likely to seek out opportunities in New York State?
- What are some of the mistakes EDCs make when dealing with foreign companies?
- What are the types of incentives foreign companies seek out when determining whether or not to invest in New York State?

Kay Sarlin Wright
Executive Vice President
Public Affairs & Strategic Initiatives

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From:	Wright, Kay (ESD)
Sent time:	07/06/2015 04:07:20 PM
To:	eliot.brown@wsj.com
Subject:	Statement and additional background info.

Statement:

“Based on the guidelines established by the federal government, this project, as well as many others, qualified for the EB-5 program, which has been used to create tens of thousands of jobs for New Yorkers across the state."

Background:

Federal law specifically allows States to designate TEAs based on their own methodology and need for investment, subject to final approval by US Citizen and Immigration Service (USCIS).

An economic development project in one area will still have spill-over economic impact and benefit to adjoining areas where potential employees may reside, thereby bringing jobs and economic activity to the combined tract that benefits the state and the country. USCIS will look at the argument made for the combination and sign off if it agrees.

Kay Sarlin Wright
Executive Vice President
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